MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

BBF3034 – ANALYSIS AND VALUATION OF FINANCIAL STATEMENTS
(All sections / Groups)

5 MARCH 2016
2.30 p.m – 4.30 p.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 3 pages with 5 Questions only.

2. Attempt **FOUR** out of **FIVE** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

a.   Explain and link the four main business activities of a company with the relevant financial statements.   (11 marks)

b.   Accounting analysis is a process that evaluates and adjusts financial statement so that it better reflects economic reality. Accounting analysis is needed in order to minimize the accounting risk caused by accounting distortions. Identify and explain the four factors that cause accounting distortions.   (8 marks)

c.   Differentiate the effect of first in, first out (FIFO) and last in, first out (LIFO) inventory technique on the following items during period of rising prices:

    i.   Cost of goods sold (COGS)   (2 marks)
    ii.   Gross profit   (2 marks)
    iii. Ending inventory   (2 marks)

(Total: 25 marks)

QUESTION 2

Given below are the selected ratios for Santhev Corporation.

	Year 2013	Year 2014	Year 2015
NOPAT margin	10%	12%	14%
NOA turnover	2	1.5	1.2
Adjusted profit margin	8%	10%	12%
Total asset turnover	1.6	1.2	0.8
Equity multiplier	2.1	2.0	1.9

Use the above information to answer the following questions.

a.   Compute Santhev's return on net operating assets (RNOA) for all three years. Identify reasons for any changes.   (11 marks)

b.   Calculate Santhev's return on common equity (ROCE) for all three years. Identify reasons for any changes.   (14 marks)

(Total: 25 marks)

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QUESTION 3

You are provided with the following information regarding Isha Corporation. The beginning book value of equity in year 1 is RM100,000. Isha Co.'s cost of capital is 15%.

	Year 1	Year 2	Year 3	Year 4	Year 5
Net income	RM35,000	RM38,000	RM36,000	RM37,000	RM36,500
Dividends	RM5,000	RM3,500	RM4,000	RM4,500	RM2,500

The abnormal earnings are expected to be zero after year 5 onwards.

a. Calculate Isha's abnormal earnings for each of the years 1 to 5. (18 marks)

b. Use an accounting based valuation model to estimate the value of Isha's equity on January 1st of year 1. (7 marks)

(Total: 25 marks)

QUESTION 4

a.

Current assets	RM950,000
Current liabilities	RM450,000
Sales	RM1,000,000
Gross profit	RM300,000
Beginning receivables	RM100,000
Ending receivables	RM220,000
Beginning inventories	RM250,000
Ending inventories	RM330,000

Based on the above information of Mona Corporation, determine the following ratio:

i. Working capital (2 marks)
ii. Current ratio (3 marks)
iii. Collection period (6 marks)
iv. Days to sell inventory (6 marks)

b. Compare the computations of economic value added and the market value added. (6 marks)

c. Explain the differences between systematic risk and unsystematic risk. (2 marks)

(Total: 25 marks)
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QUESTION 5

Kohi Corporation's income statement and balance sheets are provided below.

Kohi Corp.'s Income Statement for the year ended December 31, 2015

Sales	RM 500,000
Cost of goods sold	240,000
Depreciation expenses	20,000
Interest expenses	15,000
Income Taxes	25,000
Net income	RM 200,000

Kohi Corp.'s Balance Sheet as at December 31, 2014 and 2015

	2015	2014
Cash	RM 130,000	RM
Receivables	250,000	220,000
Inventories	80,000	65,000
Total current assets	RM 460,000	405,000
Net fixed assets	400,000	370,000
Total assets	RM 860,000	RM
Accounts payable	RM 80,000	RM 60,000
Interest payable	20,000	15,000
Total current liabilities	RM 100,000	RM 75,000
Long-term debt	200,000	150,000
Common stock	180,000	250,000
Retained earnings	380,000	300,000
Total liabilities and equity	RM 860,000	RM775,000

Construct Kohi's statement of cash flows for year 2015 using the direct method.

(Total: 25 marks)

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